

# Report of the auditor-general to the Northern Cape Provincial Legislature and the council on Kgatelopele Local Municipality

## Report on the audit of the financial statements

### Disclaimer of opinion

1. I was engaged to audit the financial statements of the Kgatelopele Local Municipality set out on pages X to X, which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

### Basis for disclaimer of opinion

#### Cash and cash equivalents

3. I was unable to obtain sufficient appropriate audit evidence for cash and cash equivalents disclosed due to the poor status of the accounting records. I could not confirm the cash and cash equivalents disclosed by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to cash and cash equivalents stated at R14 242 249 (2017: R6 473 440).
4. During 2017, the municipality did not correctly account for cash and cash equivalents in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP), GRAP 1, *Presentation of financial statements*. I identified long outstanding payments amounting to R1 127 321 that were processed in the general ledger (cash book) but not processed by the bank. Consequently, cash and cash equivalents was understated by R1 127 321 and trade and other payables understated by the same amount.
5. During 2017, the municipality did not correctly account for cash and cash equivalents in accordance with GRAP 1, *Presentation of financial statements*. I identified payments amounting to R2 445 083 that have been processed by the bank but not in the general ledger. These payments were not included in the trade and other payables listing. Consequently, cash and cash equivalents was overstated by R2 445 083 and trade and other payables understated by the same amount.
6. During 2017, the municipality did not correctly account for cash and cash equivalents in accordance with GRAP 1, *Presentation of financial statements*. I identified receipts amounting to R986 907 recorded in the general ledger but not deposited in the bank. Consequently, the cash and cash equivalents was overstated and consumer debtors was understated by R986 907.

## Property, plant and equipment

7. I was unable to obtain sufficient appropriate audit evidence for property plant and equipment as the municipality did not have adequate systems to maintain records for property plant and equipment. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to property plant and equipment stated at R283 912 831 in the financial statements.
8. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for property, plant and equipment. As described in note 53 to the financial statements, the restatement was made to rectify a previous year's misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the property, plant and equipment corresponding figure stated at R274 876 889 in the financial statements.

## Receivables from exchange transactions

9. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions as the municipality did not have adequate systems to maintain records for receivables from exchange transactions. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to receivables from exchange transactions stated at R17 809 490 in the financial statements.
10. The municipality did not recognise the allowance for doubtful debts in accordance with GRAP 104, *Financial instruments*, as the municipality did not consider all credit exposure for the current and previous year. I was unable to determine the impact on the net balance of receivables from exchange transactions as it was impracticable to do so. Additionally, there was an impact on the deficit for the period and on the accumulated surplus.
11. The municipality did not have adequate systems to maintain records of accounts receivable from exchange transactions. The municipality recorded service charges on properties belonging to the municipality as receivables. This resulted in receivables and revenue from exchange transactions being overstated. The municipality incorrectly recorded impairment for receivables from non-exchange transactions as part of receivables from exchange transactions. I was unable to determine the full extent of the understatement as it was impracticable to do so. In addition, the municipality did not disclose receivables from exchange transactions by category of consumers.

## Receivables from non-exchange transactions

12. I was unable to obtain sufficient appropriate audit evidence for receivables from non-exchange transactions as the municipality did not have adequate systems to maintain records for receivables from non-exchange transactions. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to receivables from non-exchange transactions stated at R8 450 942 (2017: R15 043 205) in the financial statements.

13. The municipality did not have adequate systems to maintain records of accounts receivable from non-exchange transactions. The municipality did not record all receivables transactions accurately as differences were noted between debtors' statements and recorded amounts. This resulted in receivables and revenue being understated by R1 657 753.

#### **Payables from exchange transactions**

14. I was unable to obtain sufficient appropriate audit evidence for payables from exchange transactions due to the poor status of the accounting records. I could not confirm the payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to trade and other payables from exchange transactions stated at R32 803 181 in the financial statements.
15. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for payables from exchanges transactions. As described in note 53 to the financial statements, the restatement was made to rectify a previous year's misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to payables from exchange transactions corresponding figure stated at R43 028 467 in the financial statements.
16. During 2017, the municipality did not account for payables from exchange transactions in accordance with GRAP 104 *Financial Instruments* as the municipality did not clear the suspense account on time. Consequently, payables from exchange transactions was overstated and receivables from exchange transactions understated by R1 851 233. Furthermore, there were differences identified between the supplier's statements and the amounts disclosed in the financial statements. Consequently, payables from exchange transactions were understated and general expenditure understated by R2 701 774. There was an impact on the deficit for the period and on accumulated surplus.
17. During 2017, I was unable to obtain sufficient appropriate evidence for the payables from exchange transactions as the municipality did not have adequate systems to maintain records for unknown bank transfers. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to unknown bank transfers stated at R1 883 059 in note 14 to the financial statements.

#### **Revenue from exchange transactions**

18. I was unable to obtain sufficient appropriate audit evidence for revenue from exchange transactions relating to service charges as the municipality did not have adequate systems to maintain records for these transactions. I was unable to confirm these amounts disclosed by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to revenue from exchange transactions for service charges stated at R37 047 955 in the financial statements.
19. I was unable to obtain sufficient appropriate audit evidence for revenue as the municipality did not have adequate systems to maintain records for rental income. I was unable to confirm these amounts disclosed by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to rental income stated at R1 097 756 in the financial statements.

20. During 2017, the municipality did not account for service charge transactions in accordance with GRAP 9, *Revenue from exchange transactions*. The meter readings were not captured for all the services rendered; therefore, service charges could not be confirmed as accurate. This resulted in revenue from exchange transactions and consumer debtors being understated by R1 808 140. Furthermore, I was unable to obtain sufficient appropriate evidence for restatements of fair value adjustments as well as actuarial gains. There was an impact on the deficit for the period and on accumulated surplus.

#### Revenue from non-exchange transactions

21. The municipality did not account for public contributions and donations in accordance with GRAP 1, *Presentation of Financial Statements*. The amount recorded does not agree to supporting documentation. In addition, transactions for public contribution and donations were recorded in the incorrect accounting period. Consequently, revenue from non-exchange transactions relating to public contributions and donations was overstated by R3 886 291.
22. During 2017, the municipality did not account for property rates in accordance with GRAP 1, *Presentation of Financial Statements*. Property rates was not charge in line with the approved tariff which resulted in property rates in note 21 to the financial statements being understated. I was unable to determine the full extent of the understatement as it was impracticable to do so. Additionally, there was an impact on the deficit for the period and on accumulated surplus.

#### Expenditure

23. I was unable to obtain sufficient appropriate audit evidence for expenditure relating to general expenditure as the municipality did not have adequate systems to maintain records for general expenses. I was unable to confirm this amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to general expenses stated as R13 586 104 (2017: R15 574 722) in the financial statements.
24. The municipality did not accurately account for expense transactions in accordance with GRAP 1, *Presentation of financial statements*. The municipality did not recognise expenditure exclusive of VAT. General expenses and contracted services were understated by R474 890. This had an impact on VAT receivables, payables from exchange transactions and the surplus for the period.
25. I was unable to obtain sufficient appropriate audit evidence for expenditure relating to depreciation and amortisation as the municipality did not have adequate systems to maintain records for depreciation and amortisation. I was unable to confirm this amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to depreciation and amortisation stated as R17 031 514 in the financial statements.
26. I was unable to obtain sufficient appropriate audit evidence for expenditure relating to bulk purchases as the municipality did not have adequate systems to maintain records for bulk purchases. I was unable to confirm these amounts disclosed by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to bulk purchases stated as R21 794 781 in the financial statements.
27. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for finance cost. The restatement was made to rectify a previous year's misstatement, but the restatement could not be substantiated by supporting audit evidence. I

was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the finance cost corresponding figure stated at R2 804 525 in the financial statements.

#### Employee-related cost

28. I was unable to obtain sufficient appropriate audit evidence for expenditure relating to employee-related cost for basic salary, allowances, long service awards as well as leave pay provision charges as the municipality did not have adequate systems to maintain records for these transactions. I was unable to confirm these amounts disclosed by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to expenditure relating to employee-related cost stated at R16 468 112 in the financial statements.

#### Provisions

29. I was unable to obtain sufficient appropriate audit evidence for provision, as the municipality did not maintain records of assumptions used in the calculation of provisions. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to provisions stated at R2 704 540 in the financial statements. In addition, the municipality did not record provisions in accordance with GRAP 19, *Provisions, contingent assets and liabilities*. Provisions for landfill site were not accurately recorded on the financial statements as unwinding discount (interest) was not recorded. I was unable to determine the full extent of the understatement as it was impracticable to do so.

#### VAT receivable

30. I was unable to obtain sufficient appropriate audit evidence for VAT, as the municipality did not maintain accurate and complete VAT reconciliation. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to VAT receivable stated at R6 020 714 in the financial statements.

#### Commitments

31. I was unable to obtain sufficient appropriate audit evidence for commitments as the municipality did not have adequate systems to maintain records for commitments. I was unable to confirm these amounts disclosed by alternative means. Consequently, I was unable to determine whether any adjustment relating to commitments stated at R21 468 522 in the financial statements was necessary.

#### Irregular expenditure

32. In terms of section 125(2)(d)(i) of the MFMA, the municipality is required to disclose particulars of irregular expenditure in the notes to the financial statements. The municipality incurred expenditure in contravention of the supply chain management (SCM) requirements. This was not included in the irregular expenditure disclosed in note 47 to the financial statements. I was unable to determine the full extent of the understatement for the current as well as previous years as it was impracticable to do so.



### Unauthorised expenditure

33. In terms of section 125(2)(d) of the MFMA, the municipality is required to disclose particulars of unauthorised expenditure in the notes to the financial statements. The municipality incurred expenditure in excess of the budget. This was not included in the unauthorised expenditure disclosed in note 45 to the financial statements. I was unable to determine the full extent of the understatement for the current as well as previous years as it was impracticable to do so. In addition, the municipality did not disclose reasons for the variances between the final budget and actual expenditure on the statement of comparison of budget and actual amounts.
34. During 2017, I was unable to obtain sufficient appropriate audit evidence for unauthorised expenditure as the municipality did not have adequate systems to maintain records for unauthorised expenditure. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the unauthorised expenditure stated at R40 947 940 in the financial statements.

### Fruitless and wasteful expenditure

35. I was unable to obtain sufficient appropriate audit evidence for fruitless and wasteful expenditure, as the municipality did not maintain an accurate register that supports the amount disclosed. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to fruitless and wasteful expenditure incurred in the current year to the amount of R4 104 399 in the financial statements.
36. During 2017, the municipality did not fairly disclose fruitless and wasteful expenditure during the year, as required by section 125 (2)(d)(i) of the MFMA. As a result, fruitless and wasteful expenditure was understated by R1 212 296.

### Deviations from SCM regulations

37. The MFMA requires the accounting officer to record the reasons for any deviations in terms of SCM regulation 36(1)(a) and (b) and include them as a note to the annual financial statements. The municipality deviated from SCM requirements. The municipality did not disclose all deviations in note 48 to the financial statements. I was unable to determine the full extent of the understatement for the current as well as previous years as it was impracticable to do so.

### Distribution losses

38. I was unable to obtain sufficient appropriate audit evidence for distribution losses, as the municipality did not maintain accurate and complete distribution loss reconciliation. I could not confirm these amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to distribution losses stated in note 51 to the financial statements.

### Cash flow statement

39. I was unable to obtain sufficient appropriate audit evidence for the current and previous year regarding the cash flow statements as well as differences between my calculations and amounts disclosed in the cash flow statement. I was unable to confirm the cash flow statement by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the cash flow statement in the financial statements.

### Statement of change in net assets

40. I was unable to obtain sufficient appropriate audit evidence for the transactions included in the statement as the municipality did not maintain records of differences between the underlying records as well as correction of errors made. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary these amounts.

### Emphasis of matter

41. I draw attention to the matter below. My opinion is not modified in respect of this matter

### Uncertainty relating to the future outcome of litigations

42. With reference to note 39 to the financial statements, the municipality is the defendant in claims against the municipality. The municipality is opposing these claims as it believes the claims to be invalid. The ultimate outcome of the matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

### Other matters

43. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Unaudited disclosure notes

44. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

### Unaudited supplementary schedules

45. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

### Responsibilities of the accounting officer for the financial statements

46. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
47. In preparing the financial statements, the accounting officer is responsible for assessing the Kgatelopele Local Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

## Auditor-general's responsibilities for the audit of the financial statements

48. My responsibility is to conduct an audit of the financial statements in accordance with the International Standards on Auditing (ISA) and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of this auditor's report, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.
49. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit of the financial statements. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

## Report on the audit of the annual performance report

### Introduction and scope

50. In accordance with the Public Audit Act of 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected key performance areas (KPA) presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
51. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
52. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected KPA presented in the annual performance report of the municipality for the year ended 30 June 2018:

Key performance area (KPA)	Pages in the annual performance report
KPA 1 – basic services delivery: service delivery and infrastructure development	X – X

53. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.



54. The material findings in respect of the usefulness and reliability of the selected KPA are as follows:

**KPA 1 – basic service delivery: service delivery and infrastructure development**

**Total number of formal residential properties connected to the municipal electricity infrastructure network (credit and prepaid electricity metering)**

55. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of target: Provide electricity to all formal residential properties connected to the municipal electrical infrastructure network for both credit and prepaid electrical metering as at 30 June 2018. This was due to limitations placed on the scope of my work because of material differences identified between the annual performance report and underlying listings. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 3 083, as reported in the annual performance report.

**Various indicators**

56. The reported achievement in the annual performance report did not agree to the supporting evidence provided for the indicators listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

KPI no.	Indicator description	Planned target	Reported achievement	Audited value
4	Number of formal residential properties for which refuse is removed	Provision of refuse removal, refuse dumps and solid waste disposal to all residential account holders as at 30 June 2018	3 061	2 525
5	Monthly provisioning of free basic water in terms of the equitable share requirements to an estimated number of 1 700 indigent account holders (6kl per account holder)	Provide free basic water in terms of the equitable share requirements to an estimated number of 1 700 indigent account holders by 30 June 2018	1 277	1 216
6	Provide free basic electricity to indigent account holders in terms of the equitable share requirements (free 50kw of basic electricity per indigent household)	Provide free basic electricity to registered indigent account holders connected to the municipal electrical infrastructure network by 30 June 2018	1 277	1 216

**Various indicators**

57. The planned target for the indicators listed below were not specific in clearly identifying the nature and required level of performance. Due to these targets not being specific, I could not determine if reported measures taken to improve performance should have been included in the report. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

Indicator No.	Indicator description	Planned target	Reported achievement
1	Sufficient water supply	Provide clean piped water to all formal residential properties which are connected to the municipal water infrastructure network as at 30 June 2018	3 045
2	Total number of formal residential properties connected to the municipal electrical infrastructure network (credit and prepaid electrical metering)	Provide electricity to all formal residential properties connected to the municipal electrical infrastructure network for both credit and prepaid electrical metering as at 30 June 2018	3 083
3	Total number of residential properties which are billed for sewerage in accordance with the Samras financial system	Provide basic sanitation services to all residential properties which are connected to the municipal waste water (sanitation/sewerage) network as at 30 June 2018	3 033
4	Number of formal residential properties for which refuse is removed	Provision of refuse removal, refuse dumps and solid waste disposal to all residential account holders as at 30 June 2018	3 061
9	Sufficient water supply	Refurbishment of water service infrastructure by 30 June 2018	100%
10	Expand the capacity of the existing oxidation ponds	Upgrading of the existing sewage purification works by 30 June 2018	48%

## Other matters

58. I draw attention to the matters below.

### Achievement of planned targets

59. Refer to the annual performance report on pages X to X for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph(s) [X to X] of this report.

### Adjustment of material misstatements

60. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA1 – basic service delivery: service delivery and infrastructure development. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

### Introduction and scope

61. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
62. The material findings on compliance with specific matters in key legislations are as follows:

### Annual financial statements and annual reports

63. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and/or the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer of opinion.
64. The 2016-17 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
65. The local community was not invited to submit representations in connection with the 2016-17 annual report, as required by section 127(5)(a) of the MFMA.

### Expenditure management

66. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
67. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the irregular expenditure was caused as a result of not following SCM requirements that was incurred on the extension of the existing water treatment project.
68. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the fruitless and wasteful expenditure as indicated in the basis for qualification paragraph. The majority of the disclosed fruitless and wasteful expenditure was caused by non-payment of suppliers within 30 days.
69. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure as indicated in the basis for qualification paragraph.

### Revenue management

70. I was unable to obtain sufficient appropriate audit evidence that revenue due to the municipality was calculated monthly, as required by section 64(2)(b) of the MFMA.

71. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
72. I was unable to obtain sufficient appropriate audit evidence that accounts for municipal tax and charges for service charges were prepared at least monthly, as required by section 64(2)(c) of the MFMA.

#### **Asset management**

73. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

#### **Liability management**

74. An adequate management, accounting and information system that accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.
75. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA

#### **Strategic planning and performance management**

76. The SDBIP for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote as required by section 1 of the MFMA.
77. The performance management system and related controls were inadequate as it did not describe how the performance planning, monitoring, measurement, review, reporting, improvement processes should be organised and managed, as required by municipal planning and performance management regulation 7(1).

#### **Procurement and contract management**

78. Some goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c). Similar non-compliance was reported in the previous year.
79. Some quotations were accepted from prospective providers who were not on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy, in contravention of SCM regulations 16(a) and 17(b).
80. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was reported in the previous year.
81. Some goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was reported in the previous year.

82. Some invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2).
83. Sufficient appropriate audit evidence could not be obtained that quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
84. Construction contracts were awarded to contractors that did not qualify for the contract in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A). Similar non-compliance was reported in the previous year.
85. Bid documentation for procurement of commodities designated for local content and production did not stipulated the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2). Similar non-compliance was reported in the previous year.
86. Commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by the 2017 preferential procurement regulation. Similar non-compliance was reported in the previous year.
87. Sufficient appropriate audit evidence could not be obtained that commodities designated for local content and production, were procured from suppliers who met the prescribed minimum threshold for local production and content, as required by the 2017 preferential procurement regulation 8(5)
88. The performance of some of the contractors or providers was not monitored monthly, as required by section 116(2)(b) of the MFMA. Similar non-compliance was reported in the previous year.
89. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA. Similar non-compliance was reported in the previous year.
90. Awards were made to providers who were in the service of other state institutions or whose directors were in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).

#### **Human resource management**

91. Financial interests were not disclosed by the municipal manager within 60 days from the date of appointment, as required by regulation 36(1)(a) on the appointment and conditions of employment of senior managers.
92. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the Municipal Systems Act 32 of 2000 (MSA).



## Consequence management

93. Unauthorised expenditure by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
94. Irregular expenditure as well as fruitless and wasteful expenditure by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

## Other information

95. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected key performance areas presented in the annual performance report that have been specifically reported in this auditor's report.
96. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
97. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
98. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

## Internal control deficiencies

99. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
100. The financial statements were submitted late during the previous year, which resulted in management having a limited time to develop, implement and monitor the action plan. This resulted in some of the previous findings not being addressed in full. In addition, management did not develop and monitor the implementation of action plans to address internal control deficiencies previously identified.
101. The municipality did not implement effective human resource management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored.

Vacancies in key positions also had a negative impact on monitoring controls. The municipality appointed consultants to assist in compiling the annual financial statements due to these vacancies. However, a lack of monitoring of the consultants' work resulted in an overreliance on the consultants' work.

- 102. Effective financial systems of internal controls and their management had not been implemented to ensure accurate financial statements. The preparation and review of the financial statements was not adequately planned to ensure that a comprehensive review takes place.
- 103. The municipality did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting.
- 104. The municipality did not implement controls over daily and monthly processing and reconciling of transactions. Regular reconciliations were not adequately prepared for financial items during the year. This resulted in reliance on manual reconciliations at year-end. As a result, the external auditors identified a number of errors in the reconciliations. Management also indicates that they are in the process of changing the programme used to record the financial information due to various challenges with the current system.
- 105. The underlying systems and controls were inadequate to provide reliable evidence to support the reporting on predetermined objectives.
- 106. The municipality did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.

## Other reports

- 107. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

108. The Directorate for Priority Crime Investigation (Hawks) is investigating allegations of irregularities in the supply chain management processes applied by the municipality, as well as theft. These proceedings were in progress at the date of this report.

*Auditor General*

Kimberley

30 November 2018



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*